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Freie Universität Berlin
EU-STRAT
'The EU and Eastern Partnership Countries -
An Inside-Out Analysis and
Strategic Assessment'
Ihnestr. 22
14195 Berlin
Germany
eustrat@zedat.fu-berlin.de
<http://eu-strat.eu>



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Introduction¹

Ten years ago, the Eastern Partnership (EaP) was launched as the Eastern dimension of the European Neighbourhood Policy. It aims at promoting political and economic reforms that would bring the six EaP countries, namely Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine, closer to EU norms and standards. As of today, developments in the EaP countries reveal mixed trends: some countries, such as Armenia and Ukraine, have indeed witnessed instances of political and economic reform resulting in increased competition in both spheres and which could eventually pave the way towards democracy and prosperity. Notwithstanding, all six countries continue to operate as hybrid regimes combining elements of democracy and autocracy, albeit to different degrees. Moreover, in all EaP countries, sustainable and inclusive economic growth is hampered by clientelistic rent-seeking elites who restrict economic competition and the emergence of market-enhancing institutions.²

Our research project EU-STRAT set out to examine what room for action there is for the EU to promote political and economic opening in the six EaP countries and what strategies could be (in)effective to achieve this goal. In so doing, we placed the analysis of domestic conditions at the centre of our analysis. EU-STRAT is premised on the idea that deep knowledge of the dynamics of social orders, with specific attention to differences in how dominant elites restrict access to political and economic resources, is fundamental to make an informed assessment of whether and how the EU can help to bring about political and economic opening in the various EaP countries.

To this end, EU-STRAT broadly understands the six EaP countries as Limited Access Orders (LAOs) where the ruling elite restricts access to economic and political resources for private gains. This is in contrast to Open Access Orders (OAOs) based on economic and political competition.³ EU-STRAT's research⁴ shows that the six EaP countries vary in how incumbents undermine a level playing field by restricting or opening access to political and economic resources. Some allow for relatively balanced forms of access to political and economic resources, while in others, this access is unbalanced, allowing either for more access to political resources than to economic resources or posing fewer limits on accessing economic resources than on political ones. This research has also shown that the various types of LAOs are associated with distinct operating logics underlying hybrid (in)stability that helped us form expectations about what kind of change is relevant for moving them towards more openness or closure. In this policy brief, we recap these insights and combine them with further insights from research under EU-STRAT in order to derive specific policy recommendations for the EU's current engagement with various EaP countries.

¹ We gratefully acknowledge valuable comments and suggestions made by Laure Delcour, Klaudijus Maniokas, Laurynas Jonavičius and Ramunas Vilpišauskas. The usual disclaimer applies.

² Ademmer, E., Langbein, J., and Börzel, T. A. (2019) 'Varieties of Limited Access Orders: The nexus between politics and economics in hybrid regimes', *Governance*. DOI: 10.1111/gove.12414; Freedom House (2019) 'Freedom in the World Report 2019', available at <https://freedomhouse.org/report/countries-world-freedom-2019> (accessed 07 March 2019); Bertelsmann Transformation Index (BTI) (2019), available at <https://www.bti-project.org/en/home/> (accessed 07 March 2019).

³ North, D.C., Wallis, J. J. and Weingast, B. R. (2009) *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History*, Cambridge: Cambridge University Press.

⁴ Ademmer et al. (2019).

Evidence and Analysis: Varieties of Limited Access Orders in the Eastern neighbourhood

EU-STRAT's research points to the existence of three types of LAOs in EaP countries as of today, which we have labeled 'balanced closure', 'unbalanced closure' and 'balanced openness' and which are associated with distinct operating logics and expectations for change.⁵

Belarus and Azerbaijan: 'Balanced closure' as a stable status quo

Belarus and Azerbaijan qualify as '**balanced closure**' orders. These orders operate by drastically limiting competition in the political and economic sphere. In this vein, free and fair elections, as well as horizontal accountability and political rights are absent in Belarus and Azerbaijan. At the same time, the dominant elite firmly controls the economic sphere, as a result of which the opposition is deprived of an important source of funding. In turn, severe limitations of political competition allow the dominant elites to prevent any form of private sector development that would endanger the authorities' monopoly of control over the economy. What is more, dominant elites in balanced closure orders use their monopoly over political and economic resources to provide public goods such as universal health service.⁶ In a similar vein, the fact that the state in Belarus owns production assets has contributed to low unemployment and relatively high wages. Combined with fiscal discipline, this has allowed for substantial social spending in Belarus.⁷ Along with the use of repression, the capacity to provide public goods at least on an elementary level is likely to contribute to regime stability in such a context.

The operating logic of balanced closure orders, which combine highly restrictive access to political and economic resources, leads us to expect that change is unlikely to happen in a gradual way in such a context. That is because the dominant elites possess the power to undermine gradual opening in economics due to their control of the political sphere, and vice versa. What is more, balanced closure types also imply that external actors who wish to promote political and economic opening, such as the European Union (EU), have only limited room for maneuvering, as both the economic and political sphere are firmly controlled by the dominant elite. As Shea et al. (2018)⁸ detail for the case of Belarus, externally promoted economic reforms that aim at inducing economic opening in the context of balanced closure orders, including private sector development or the protection of property rights, are only successful to the extent they do not challenge the power status of the dominant elites. The Belarusian leadership has, for example, agreed to reduce the regulatory burden for private enterprises and to develop new sectors, such as in IT, to provide career opportunities for the young generation.⁹ It is also willing

⁵ This typology, the operating logics, and expectations for EaP countries are based on a measurement of political and economic access that we developed to capture the variation in how incumbents in LAOs restrict or open access to political and economic resources (see Ademmer et al. 2019 for details).

⁶ Dimitrova, A., Toshkov, D., Mazepus, H., Maniokas, K., Boroda, M., Chulitskaya, T., Grytsenko, O., Rabava, N., Ramasheuskaya, I. and Wolczuk, K. (2018) 'Statehood, State Capacity and Limited Access Orders: Comparing Belarus and Ukraine', *EU-STRAT Working Paper No. 12*, Berlin: Freie Universität Berlin.

⁷ Yarashevich, V. (2014) 'Political Economy of Modern Belarus: Going Against Mainstream?', *Europe-Asia Studies* 66(10): 1703-1734, p. 1717.

⁸ Shea, E., Dimitrova, A., Mazepus, H., Maniokas, K., Vilpišauskas, R., Jonavičius, L., Langbein, J. and Munteanu, I. (2018) 'Scenario analysis of EU engagement promoting opening or closure in the Eastern Partnership countries', *EU-STRAT Deliverable 2.5*, 21 December.

⁹ Shraibman, A. (2018) 'The House That Lukashenko Built. The Foundation, Evolution, and Future of the Belarusian Regime', 12 April, *Carnegie Moscow Centre*, available at https://carnegieendowment.org/files/CP328_Shraibman_Belarus_FINAL.pdf (accessed 17 April 2018).

to cooperate with the EU in non-politicized, technical areas, such as energy efficiency or food safety. Yet, these efforts have so far not contributed to substantial economic opening, let alone entailed any spill-over effects into political opening, that would have indicated a transition to a different type of LAO characterized by more openness in the economic and/or political sphere.¹⁰ In a similar vein, EU efforts to improve public services or facilitate people-to-people contacts through visa facilitation are likely to help improve the living standard of the people in countries like Belarus, but they are unlikely to result in more opening. All of these measures rather contribute to stabilizing the current balanced closure type, since the Belarusian leadership uses EU support in these less politicized areas to demonstrate its power to negotiate deals with Brussels that are beneficial for citizens.¹¹ By contrast, EU assistance aimed at empowering opposition parties, human rights organizations, courts, or anti-corruption agencies, are in fact likely to lead to more closure, as the dominant elites have sufficient resources to resist these changes through further repression, and an even stronger isolation of the country's citizens.¹²

Importantly, both Belarus and Azerbaijan still enjoy close ties with Russia when it comes to energy, trade and security. Also, China is another important trading partner for Belarus.¹³ Limited vulnerability *vis-à-vis* EU leverage thus further limits the space for EU measures aimed at opening in the two countries.¹⁴

In sum, external strategies aimed at inducing opening are likely to fail in the context of balanced closure, especially when interdependencies with external actors promoting opening are weak. They can at best help to maintain the institutional *status quo*, as long as these measures do not question the powerful position of the ruling elite. In the worst case, external attempts to induce opening might result in more closure.

Armenia: From 'unbalanced closure' to 'balanced openness'?

Up until recently, Armenia exemplified the type of an 'unbalanced closure' order. This order is marked by a relatively stable combination of highly restricted political access and relatively lax economic access. Armenia's relative stability was based on severe restrictions of political competition and specific economic opening in areas like trade liberalization and privatization since the late 1990s. The latter allowed the then dominant elite to counter trade deficits and induce economic growth, while restrictions on electoral competition, political rights and horizontal accountability rendered the emergence of a political opposition impossible. These developments were certainly fueled by the Nagorno-Karabakh conflict, which not only gave rise to a nationalist rhetoric reinforcing authoritarian rule, but entailed a closed border, several blockades and costs that contributed to socio-economic decline.¹⁵ The 2018 Velvet Revolution led by the former journalist and protest leader Nikol Pashinyan has clearly resulted in greater access to political resources in the subsequent months when it comes to electoral

¹⁰ Ademmer et al. (2019).

¹¹ We thank Laurynas Jonavicius for pointing this out.

¹² Giumelli, F. and Ivan, P. (2013) 'The effectiveness of EU sanctions: An analysis of Iran, Belarus, Syria and Myanmar (Burma)', *EPC ISSUE PAPER No. 76*, available at http://www.epc.eu/documents/uploads/pub_3928_epc_issue_paper_76_-_the_effectiveness_of_eu_sanctions.pdf (accessed 25 March 2019).

¹³ Całus, K., Delcour, L., Gazizullin, I., Iwański, T., Jaroszewicz, M. and Klysiński, K. (2018) 'Interdependencies of Eastern Partnership Countries with the EU and Russia: Three Case Studies', *EU-STRAT Working Paper No. 10*, Berlin: Freie Universität Berlin.

¹⁴ Shea et al. (2018).

¹⁵ BTI (2016) 'Armenia Country Report', available at <https://www.bti-project.org/en/reports/country-reports/detail/itc/arm/ity/2016/itr/pse/> (accessed 25 March 2019).

competition and political rights. However, in other spheres, such as horizontal accountability, progress is still limited¹⁶.

Against this background, our typology identifies the limited access to political resources as being most indicative of Armenia's enduring closure. By contrast, many observers of Armenia might associate the persistent degree of closure with the striking monopolization of the Armenian economy in politically viable sectors. Our analysis, however, suggests that monopolization is the consequence rather than the root cause of Armenia's mix of economic liberalization and political closure: Restrictions on political competition allowed the dominant elite in the early years of post-Soviet transition to manipulate the privatization process and get state-owned enterprises in strategic sectors under its control. What is more, the dominant elite used its privileged access to political resources to ensure that partial de-monopolization, which Armenia has begun to implement since 2010 in response to the financial crisis and EU requirements during the Association Agreement negotiations, would weaken political opponents and strengthen political allies.¹⁷ More precisely, Armenia's then dominant elite under Serzh Sargsyan arguably stripped some regionally influential oligarchs of their economic opportunities to engage politically. While these oligarchs founded a new party named 'Prosperous Armenia' (PA), they had to take a cooperative stance towards the ruling elite to avoid tax controls¹⁸.

Our typology suggests that external attempts aimed at supporting more openness in Armenia in the aftermath of the Velvet Revolution should put emphasis on increasing political competition by focusing on the independence of the judiciary and bureaucracy, as the latter are a prerequisite for the impartial enforcement of anti-monopoly legislation. In Armenia, external actors promoting opening certainly have more room for taking action in this respect than in Belarus and Azerbaijan: While the country is vulnerable to Russia when it comes to security and energy issues, which has also contributed to Armenia's withdrawal from the Association Agreement with the EU in 2016, the country enjoys close ties to both Russia and the EU in economic terms.¹⁹ Brussels can use economic linkages with Armenia, which are institutionalized in the Comprehensive Enhanced Partnership Agreement between the two parties since 2017, to support progress in political reforms.²⁰

Georgia, Moldova and Ukraine: From 'balanced openness' LAOs to OAOs?

'Balanced openness' LAOs operate on the logic of allowing for relatively high degrees of political and economic access. That said, compared to OAOs, the dominant elite still restricts access to political and economic resources, albeit to a smaller degree than in the other two types of LAOs. Georgia, Ukraine and Moldova are exemplary for the balanced openness type of LAO.

They all share a substantial degree of competition in elections and administer them reasonably well: there is *de facto* political competition between various political fractions that is relatively fair and free. Political rights are

¹⁶ Freedom House (2019).

¹⁷ Ademmer et al. (2019).

¹⁸ Liakov, P. (2017) 'Armenia's "patronage democracy."', available at <http://oc-media.org/armenias-patronage-democracy/> (accessed 28 February 2018).

¹⁹ Ademmer, E., Delcour, L., Hoffmann, K. and Jaroszewicz, M. (2018) 'How linkages translate into regime (in)stability: Evidence from the post-Soviet space', *EU-STRAT Deliverable 3.5*, 30 November.

²⁰ Delcour, L. and Ghazaryan, N. (forthcoming) 'Armenia: A Precarious Navigation Between the Eurasian Economic Union and the European Union', in F. Bossuyt and P. van Elsuwege (eds) *Principled Pragmatism in Practice: The EU's Policy Towards Russia After Crimea*, London: Routledge.

granted, albeit limitations continue to exist – or have recently even increased – in various areas e.g. with regard to the freedom of assembly (Ukraine) or the freedom of expression (Moldova). More severe restrictions exist in all three countries when it comes to the rule of law. For example, all of them lack an independent judiciary.²¹ In the area of economics, Georgia, Moldova, and Ukraine are marked by substantial opening despite the prevalence of oligarchic groups. Ademmer et al. (2019) show that Ukraine since 2005, Georgia since 2008²², and Moldova since 2012 have seen improvements in private sector development indicating a slowly increasing dissipation of rents across a larger number of economic actors. Formal rules of governing economic competition show signs of being enforced on the ground, thereby raising hopes that greater political competition will also result in greater economic competition. Put differently, the dominant elites still enjoy privileged access to political and economic access but the piece of cake they can secure for themselves is smaller in the balanced openness type of LAO compared to the other two types due to increasing political and economic competition.²³

Arguably, this LAO type is open enough to allow for peaceful and electoral power changes. Yet, there is seemingly no straightforward transition of these orders towards OAOs. Instead, balanced openness LAOs have been stable over time without necessarily becoming increasingly open.²⁴ These orders, however, display a degree of openness that should allow external actors to facilitate further opening by especially targeting areas that are still marked by closure. This also means that some requirements laid down in the Association Agreements should be postponed to a later stage. EU-STRAT's research, for example, showed that certain requirements with regard to transport or the environment (e.g. when it comes to road safety or environmental impact assessment) are very costly but entail only limited short-term and tangible results for citizens in the three associated countries.²⁵

As Shea et al. (2018) argue for balanced openness orders, the EU should focus on supporting anti-corruption activities, especially when it comes to high-level corruption, as well as strengthening capacities of non-majoritarian institutions, such as the judiciary and independent regulatory agencies, civil society, small and medium sized firms. Both processes are, of course, interlinked, since the strengthening of non-majoritarian institutions is not possible without confronting political patronage and corruption.²⁶ For example, further reforms of state aid and public procurement and/or better external monitoring of previous reforms are important, since the current system still facilitates easier access for oligarchic networks than for small and medium sized enterprises.²⁷

Moreover, Dimitrova et al. (2018) have shown that a balanced openness order such as Ukraine is struggling to deliver public goods and services but is taking important steps in public administration reform. External actors promoting opening can provide continuous support for the emergence of a professional and independent public administration in Ukraine which can, in the longer-term, result in a more universal access to public services. The

²¹ Freedom House (2019).

²² While the Georgian government under Mikhail Saakashvili did start introducing economic reforms facilitating greater economic competition after the 2003 Rose revolution, these reforms have only shown signs of being enforced on the ground since 2008 (Ademmer et al. 2019).

²³ Ademmer et al. (2019).

²⁴ Ibid.

²⁵ Maniokas, K., Delcour, L., Gazizullin, I., Berbeca, V., Muntean, I. and Munteanu, I. (2019) 'Political Economy of Law Harmonization in EaP Countries: Informal Adjustment of Association?', *EU-STRAT Working Paper No. 18*, Berlin: Freie Universität Berlin.

²⁶ We thank Klaudijus Maniokas for pointing this out.

²⁷ Langbein, J., Gazizullin, I. and Naumenko, D. (2019) 'Trade liberalization and opening in post-Soviet economies', *EU-STRAT Deliverable 6.4c*, 7 March.

EU is already investing lots of resources in the reform of public administration – above all relating to areas that are needed for the successful implementation of the EU *acquis* in order to meet the requirements of the Association Agreement. More emphasis could be put on investment in public services at a sectoral level, such as social and health services, as the latter will likely produce tangible results for the population.

As Georgia and Ukraine increasingly seek to decrease their trade and energy dependence on Russia for security reasons²⁸, the EU has more room for supporting opening in these countries than in Belarus or Azerbaijan. In Moldova, the EU faces a slightly less favorable environment. In contrast to Ukraine and Georgia, Moldova's dominant elites are less keen to decrease energy dependence from Russia, since they benefit from corrupt practices dominating energy trade with Russia.²⁹ What is more, Moldova's dominant elites are becoming increasingly dependent on investments from Russia and facilitate – more often than not – money laundering.³⁰ These developments, however, do not imply that Moldova is less dependent on the EU than Ukraine or Georgia. Moldova strongly relies on EU financial assistance. Strict EU conditionality based on regular monitoring of the prosecution of money laundering and fraud, reforms in the banking and energy sector, as well as the (continuous) withdrawal of budget support or limitations of visa-free travel for certain members of the elite will be important to increase transparency and limit opportunities for rent-seeking.

Policy Implications and Recommendations

In its engagement with the balanced closure order of **Belarus and Azerbaijan** the EU should:

- Acknowledge that there is little room for promoting political opening from the outside to avoid disappointment among the small, yet existent, political opposition in these countries. As the dominant elite controls both the political and economic sphere, open attempts to undermine the current social order by imposing stronger political requirements and/or political conditionalities can lead to outright repression or the regime's withdrawal from any cooperation with the EU, as has happened in the past.
- Continue to strengthen private sector development, cooperation concerning non-politicized economic issues (e.g. technical standards or energy efficiency) and to engage in measures to improve the living standards of the population (such as visa facilitation and support for improved and more universal public services). It should, however, be open about the fact that cooperation in these areas – where reforms do not threaten the power position of the dominant elite and their opportunities for rent-seeking – are likely to contribute to regime stability as they relieve socio-economic tensions. It should communicate more clearly that these measures are, nevertheless, often necessary for humanitarian reasons.

In its engagement with the unbalanced closure order of **Armenia** the EU should:

- Put priority on measures aimed at increasing political competition, with a particular focus on the creation of an independent judiciary and helping to increase control of the executive branch through the parliament.
- Acknowledge that the fight against oligarchs, as demanded by the Armenian public, can only be successfully led once horizontal accountability has improved in Armenia.

²⁸ Catus et al. (2018).

²⁹ Ibid.

³⁰ Shea et al. (2018); Gaibu, S. (2018) 'Money laundering in Moldova', *ZOIS Spotlight 33*, Berlin: Centre for East European and International Studies.

In its engagement with the balanced openness orders of **Georgia, Moldova, Ukraine** the EU should:

- Provide more targeted support to induce increasing political and economic competition by putting even more emphasis than today on areas marked by closure, such as the judiciary and high-level corruption.
 - Monitor reforms even more strictly to counter further consolidation of oligarchic networks in the various economies. Even in areas like state aid and public procurement, where the EU has provided substantial support for reforms, the current system still tends to privilege firms owned by oligarchic networks over small and medium sized enterprises.
 - Provide financial investments for improvements in public services, especially in social and health services which will create tangible results for citizens. This is important in order to increase public support for reforms, especially among Ukrainian citizens, since strict austerity measures imposed by the IMF and the EU have made the Ukrainian government cut social expenditures.
 - Put priority on the prosecution of money laundering and the reform of the banking and energy system in Moldova.
- Change the implementation schedule of the Association Agreements with Georgia, Moldova and Ukraine, i.e. postpone costlier reforms that do not entail short-term benefits for the population (for example regarding certain requirements relating to transport or the environment) and prioritize reforms in the above-mentioned areas.



The EU and Eastern Partnership Countries An Inside-Out Analysis and Strategic Assessment

Against the background of the war in Ukraine and the rising tensions with Russia, a reassessment of the European Neighborhood Policy has become both more urgent and more challenging. Adopting an inside-out perspective on the challenges of transformation the Eastern Partnership (EaP) countries and the European Union face, the research project EU-STRAT seeks to understand varieties of social orders in EaP countries and to explain the propensity of domestic actors to engage in change. EU-STRAT also investigates how bilateral, regional and global interdependencies shape domestic actors' preferences and scope of action. Featuring an eleven-partner consortium of academic, policy, and management excellence, EU-STRAT creates new and strengthens existing links within and between the academic and the policy world on matters relating to current and future relations with EaP countries.
